

# HG Metal Manufacturing Limited

4 May 2022

## Non-Rated

<b>BBG</b>	HGM SP
<b>Market cap</b>	S\$53.4m
<b>Price (4 May 2022)</b>	S\$0.42
<b>52-week range</b>	S\$0.25 – S\$0.45
<b>Target Price</b>	Non-rated
<b>Shares Outstanding</b>	127.2m
<b>Free Float</b>	59%
<b>Major Shareholder</b>	Foo Sey Liang 22.6% Aung Tin Htut 6.4%
<b>P/BV (12/21)</b>	0.5x
<b>Net Debt to EBITDA (12/21)</b>	Net cash

Source: Company data, Bloomberg, SAC Capital

## Higher construction output to drive forward earnings

HGM supplies cut & bend reinforcement steel bars (rebars) (72% of revenue) for the construction industry, and distributes and rents out (28%) >3,000 steel products for use in a wide range of industries. Key markets are Singapore (93.3% of sales), Myanmar (4.6%) and Indonesia (1.4%).

**Pivot to rebar cut & bend.** From FY19, HGM pivoted from the volatile distribution business to focus on supply of cut & bend rebars to the construction sector to: 1) ride on strong public sector demand in Singapore; 2) minimize margin risks – price increases for rebars and ready-mix concrete can be passed through to customers via BCA index; and 3) minimize receivable risks as bulk of orders are government projects.

Net profit has turned around from FY19 and improving. FY21 revenue and EBITDA rose 55.2% and 231%, a result of 14.5% higher volume and 35.5% jump in ASP. The low-cost inventory on hand lifted EBITDA margin to 12.1%. Myanmar operations, however, shrank by half since the military coup in Feb 2021, and incurred a loss of S\$0.9m.

**The high barriers to entry** are a sizeable cutting and storage facility and dominant sales volume. HGM has a storage capacity of 200,000 ton, and handling capacity of 80,000 ton per month in Singapore and Myanmar. Volume of prefabrication construction work is growing, due to noise and space constraints at construction sites, and these work are performed by building material suppliers for an added margin. HGM's processing facility gives it an edge. A high sales volume offers operating leverage through better purchase terms, plant utilization, transport and overhead efficiencies. We estimate HGM's domestic share is about 15%.

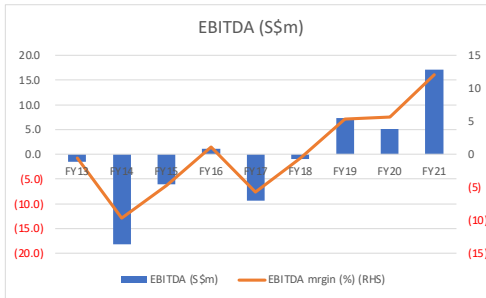
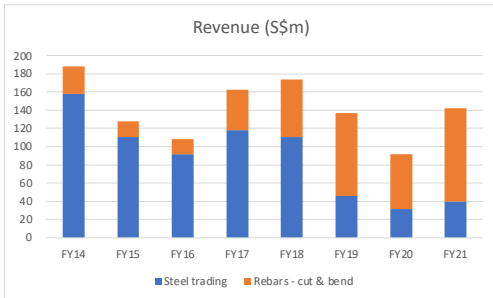
**Demand growth underpins by contract awards.** BCA forecasts construction demand at S\$27-32b in 2022 (FY21 S\$29.9b). Contracts awarded for Jan-Feb hit S\$5b, underpinning demand for building materials. Industry rebar consumption rose by 223% in the first 2 months of 2022. YTD March ASP has risen by 12.5%. We believe a 15% average earnings growth for FY22E and FY23E is in the bag, though EBITDA margins are likely to normalize to 8-9%.

**The share is trading at undemanding 0.5x of book value** (net cash & equivalent = S\$0.093/sh) and FY21 EV/EBITDA of 2.4x. The risks are supply shortage with output cuts in Russia, Ukraine and China, and higher inventory holding costs to cushion supply chain bottleneck.

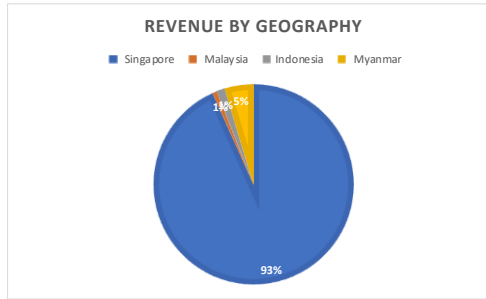
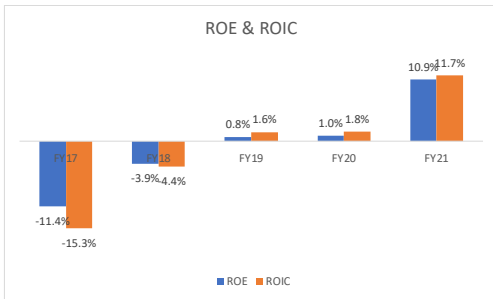
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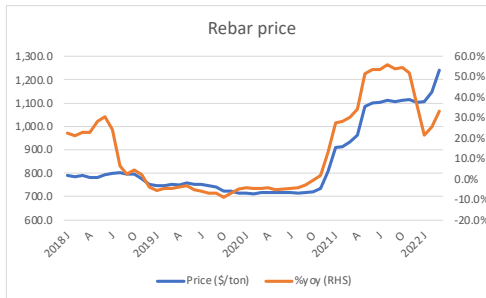
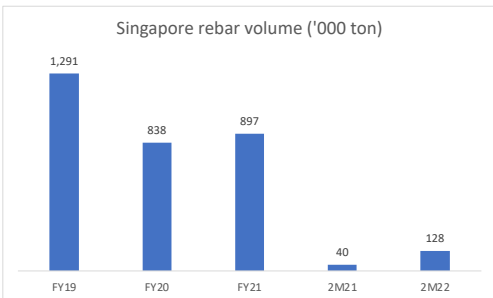
Year end 31 Dec (S\$m)	FY17A	FY18A	FY19A	FY20A	FY21A
Revenue	162.6	173.9	137.1	91.7	142.3
EBIT	(11.9)	(3.7)	1.7	2.5	13.5
Net profit	(11.9)	(3.9)	0.8	1.0	12.1
EPS (cents)	(9.4)	(3.1)	0.6	0.8	9.5
DPS (cents)	-	-	-	0.5	4.0
Net cash / (debt)	28.8	22.1	10.0	9.1	11.8
<b>Valuation</b>					
EBIT margin (%)	(7.3)	(2.2)	1.2	2.7	9.5
ROIC (%)	(15.3)	(4.3)	1.6	1.8	11.7
EV/EBITDA (x)	(2.8)	(34.0)	6.1	7.1	2.4
P/E (x)	(4.6)	(13.9)	72.3	53.3	4.5
Dividend yield (%)	-	-	-	1.2	9.3



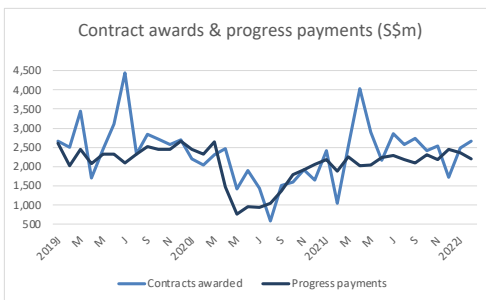
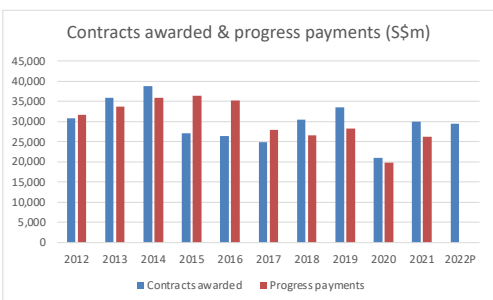
The share of rebar business has grown to 72% in FY21. This has also lifted EBITDA margin to 12.1%.



We estimate it has a domestic share of 15% of the rebar market.



Rebar volume and prices are rising with strong underlying construction demand and supply chain bottleneck.



Contracts awarded will translate into progress payments in 12 to 24 months.

## Peer comparison

	Mkt cap	Revenue	EBITDA	Net profit	Net margin	PE	P/B	EV/EBITDA	ROIC	ROE	ROA
	\$m	\$m	\$m	\$m	\$m	x	x	x	%	%	%
HG Metal	53.4	142.3	17.2	12.1	8.5%	6.6	0.5	2.4	12.0%	10.9%	10.0%
BRC Asia	450.0	1,168.6	81.8	47.0	4.8%	9.6	1.5	9.8	15.6%	15.6%	9.2%

## Income Statement

YE 31 Dec (\$m)	FY18A	FY19A	FY20A	FY21A
<b>Revenue</b>	<b>173.9</b>	<b>137.1</b>	<b>91.7</b>	<b>142.3</b>
Cost of sales	(164.1)	(123.8)	(80.6)	(113.1)
<b>Gross profit</b>	<b>9.9</b>	<b>13.3</b>	<b>11.1</b>	<b>29.2</b>
Other income	6.8	4.9	3.4	3.1
Government grant			1.2	0.4
Selling/distribution	(0.7)	(0.6)	(0.6)	(0.4)
Admin expense	(9.1)	(9.6)	(8.7)	(11.2)
Other expenses	(7.9)	(0.6)	(0.1)	(3.5)
<b>EBITDA</b>	<b>(1.0)</b>	<b>7.4</b>	<b>6.4</b>	<b>17.6</b>
Depreciation	(2.8)	(5.7)	(3.9)	(4.1)
<b>EBIT</b>	<b>(3.7)</b>	<b>1.7</b>	<b>2.5</b>	<b>13.5</b>
Finance costs	(0.2)	(0.9)	(1.1)	(1.1)
Pretax profit	(3.9)	0.8	1.4	12.4
Tax expense	(0.0)	(0.0)	(0.0)	(1.3)
Minority interests	(0.0)	(0.0)	(0.3)	0.9
<b>Net profit</b>	<b>(3.9)</b>	<b>0.8</b>	<b>1.0</b>	<b>12.1</b>

## Balance Sheet

YE 31 Dec (\$m)	FY18A	FY19A	FY20A	FY21A
<b>Assets</b>				
PPE	22.9	32.2	34.0	31.9
ROU assets	-	11.3	11.2	11.5
Intangible assets	0.0	0.1	0.1	0.3
Other non-current assets	13.9	10.4	3.8	7.6
<b>Non-current assets</b>	<b>36.8</b>	<b>54.0</b>	<b>49.1</b>	<b>51.3</b>
Cash	15.4	22.9	19.5	27.9
Trade receivables	51.2	49.3	37.7	37.5
Inventories	30.9	43.1	28.1	45.8
Other current assets	10.2	3.6	12.7	9.5
<b>Current assets</b>	<b>107.7</b>	<b>118.9</b>	<b>98.0</b>	<b>120.7</b>
<b>Total assets</b>	<b>144.5</b>	<b>172.8</b>	<b>147.1</b>	<b>171.9</b>
<b>Liabilities</b>				
Bank loans	(3.4)	(19.8)	(2.7)	(9.9)
Trade payables	(35.5)	(36.0)	(13.2)	(21.5)
Lease liabilities		(1.3)	(1.0)	(1.0)
Income tax payable	(0.0)	(0.0)	(0.0)	(0.8)
Other current liabilities	(1.5)	(0.9)	(0.2)	(0.1)
<b>Current liabilities</b>	<b>(40.4)</b>	<b>(58.0)</b>	<b>(17.1)</b>	<b>(33.3)</b>
Bank loans	-	(3.2)	(17.2)	(15.0)
Lease liabilities	-	(7.8)	(7.1)	(6.3)
Other payables	(1.2)	(1.2)	(1.8)	(3.2)
<b>Non-current liabilities</b>	<b>(1.2)</b>	<b>(12.2)</b>	<b>(26.1)</b>	<b>(24.5)</b>
<b>Net assets</b>	<b>102.9</b>	<b>102.7</b>	<b>103.8</b>	<b>114.1</b>
<b>Equity</b>				
Share capital	70.5	70.5	70.5	70.5
Other reserves	29.7	28.2	29.2	40.2
	100.2	98.7	99.7	110.7
Minority interests	2.7	3.9	4.2	3.3
<b>Total equity</b>	<b>102.9</b>	<b>102.7</b>	<b>103.8</b>	<b>114.1</b>

## Cash Flow

YE 31 Dec (\$m)	FY18A	FY19A	FY20A	FY21A
Pretax profit	(3.9)	0.8	1.4	12.4
Depreciation & amortisation	2.8	5.7	3.9	4.1
Net finance expense	(0.2)	0.5	0.7	0.9
Non-fund items	0.3	(0.8)	0.3	2.7
Working capital changes	(12.9)	(10.0)	8.2	(11.7)
Interest paid	0.1	(0.5)	(0.7)	(0.6)
Dividend from associates	-	-	-	-
Tax paid	(0.0)	(0.0)	(0.0)	(0.0)
<b>Operating cash flow</b>	<b>(13.8)</b>	<b>(4.3)</b>	<b>13.9</b>	<b>7.8</b>
Capex	(4.5)	(10.4)	(10.3)	(2.4)
Net investments	(0.1)	-	-	-
Fixed assets disposal	0.2	-	0.4	0.8
Others	(0.1)	6.9	(3.1)	(0.8)
<b>Free cash flow</b>	<b>(18.2)</b>	<b>(7.9)</b>	<b>1.0</b>	<b>5.4</b>
Dividend paid	-	-	-	(0.6)
Borrowings	3.3	14.6	(4.3)	3.9
Equity	1.5	0.8	-	(0.4)
<b>Net change</b>	<b>(13.3)</b>	<b>7.5</b>	<b>(3.4)</b>	<b>8.2</b>

## Ratios

YE 31 Dec (\$m)	FY18A	FY19A	FY20A	FY21A
<b>Profitability (%)</b>				
Gross margin	5.7	9.7	12.1	20.5
EBIT margin	(2.2)	1.2	2.7	9.5
<b>Liquidity (x)</b>				
Current ratio	2.7	2.0	5.7	3.6
Net Debt/EBITDA	Net cash	Net cash	Net cash	Net cash
Interest coverage ratio	(5.8)	8.3	5.8	16.5
Net Debt to Equity	Net cash	Net cash	Net cash	Net cash
<b>Valuation (x)</b>				
P/E	(13.9)	72.3	53.3	4.5
P/B	0.5	0.5	0.5	0.5
EV/EBITDA	(34.0)	6.1	7.1	2.4
<b>Cash Conversion Cycle</b>				
Trade receivable days	107.4	131.2	150.0	96.2
Inventory days	68.7	126.9	127.5	147.7
Trade payable days	78.9	106.3	60.0	69.4

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